

Q1 2018



City of Upland Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Upland In Brief

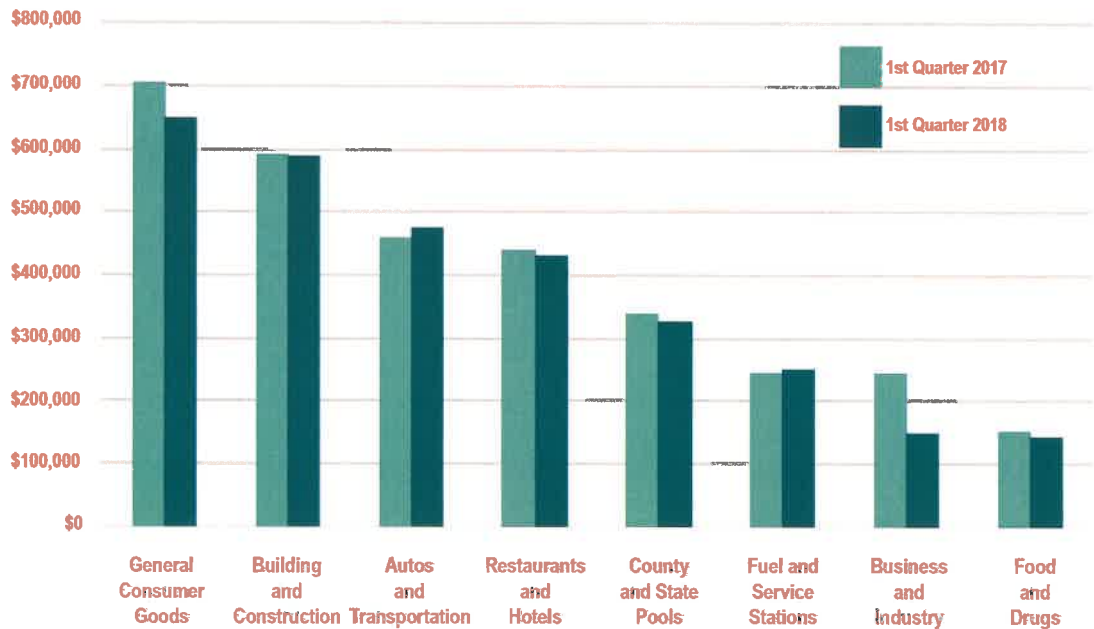
Upland's receipts from January through March were 5.1% below the first sales period in 2017, but the drop was largely the result of the State's transition to a new software and reporting system that caused a delay in processing multiple payments, which particularly depressed service stations and general consumer goods. A large state payment correction to reclassify prior year sales activity to another jurisdiction also impacted business-industrial returns. Excluding reporting aberrations, actual sales were up 3.4%.

Auto-transportation sales was the bright spot this quarter with the City's 8% adjusted growth rate outpacing the 1% statewide average.

Progress was limited, however, by the negative payment aberrations that further reduced the City's share of the countywide use tax pool, because this funding is allocated among County agencies based on proportional cash results.

Net of aberrations, taxable sales for all of San Bernardino County grew 8.0% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Lowes
AT&T	Marshalls
Bed Bath & Beyond	Mountain View Chevrolet
Caliber Collision Centers	RV Spa
Chevron	Stater Bros
Chick Fil A	Target
CVS	TJ Maxx
Dick's Sporting Goods	Ulta Beauty
Euclid Arco	USA Gasoline
Ford of Upland	Verizon Wireless
Holiday Rock	Vons
Home Depot	Walmart
Kohls	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$11,953,665	\$12,051,249
County Pool	1,453,208	1,486,790
State Pool	9,100	4,005
Gross Receipts	\$13,415,973	\$13,542,044

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

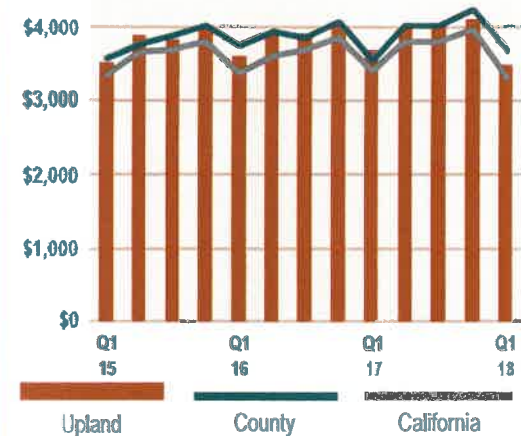
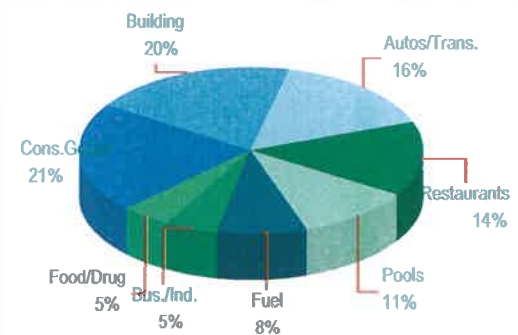
After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER CAPITA**REVENUE BY BUSINESS GROUP**
Upland This Quarter**UPLAND TOP 15 BUSINESS TYPES**

*In thousands of dollars

Business Type	Upland		County	HdL State
	Q1 '18*	Change	Change	Change
Automotive Supply Stores	52.6	13.6%	-3.3%	-4.1%
Building Materials	363.2	0.0%	9.7%	3.8%
Casual Dining	170.7	-6.8%	-1.7%	-2.0%
Contractors	— CONFIDENTIAL —		24.2%	21.6%
Convenience Stores/Liquor	50.3	8.0%	-0.3%	0.5%
Discount Dept Stores	— CONFIDENTIAL —		4.8%	2.8%
Electronics/Appliance Stores	64.4	-7.8%	-3.3%	0.8%
Family Apparel	57.5	11.9%	11.0%	8.2%
Fast-Casual Restaurants	56.5	2.7%	8.9%	6.8%
Grocery Stores	72.9	-2.5%	9.1%	1.9%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-4.3%	-0.2%
Quick-Service Restaurants	195.1	1.5%	-1.7%	-3.8%
Service Stations	249.5	2.4%	3.8%	4.6%
Specialty Stores	91.0	-18.8%	-10.7%	-10.1%
Sporting Goods/Bike Stores	56.5	4.4%	8.2%	1.4%
Total All Accounts	2,695.1	-5.3%	5.3%	-1.8%
County & State Pool Allocation	328.0	-3.4%	7.4%	-2.1%
Gross Receipts	3,023.1	-5.1%	5.5%	-1.8%